

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 9th day of April, 2010, (Effective Date), by and through the Board of Directors (Board) of First Federal Bank, Lexington, Kentucky, OTS Docket No. 03719 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Association is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its October 26, 2009 examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices and/or violations of law or regulation; and

WHEREAS, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS October 26, 2009 Report of Examination (2009 ROE), the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on April 9, 2010, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Business Plan.

1. Within sixty (60) days, the Association shall submit a new comprehensive business plan for the remainder of calendar year 2010 and calendar years 2011 and 2012 that is acceptable to the Regional Director (Business Plan). At a minimum, the Business Plan shall include:

- (a) plans and strategies to restructure the Association's operations, strengthen and improve the Association's earnings, reduce expenses, and achieve positive core income and profitability;
- (b) a review and assessment of the feasibility and profitability of the Association's branch structure and establishment of profitability and operational targets and goals for each branch that includes preparation of a quarterly profitability analysis of each branch to the Board;
- (c) strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, comply with this order, and maintain appropriate levels of liquidity;
- (d) a reduction in higher risk lending categories, including non-residential real estate and non-owner occupied single family dwelling loans;
- (e) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) and a four-quarter budget; and
- (f) identification of all relevant assumptions made in formulating the Business Plan, including consideration of the Association's most recent operational results, and retention of documentation supporting such assumptions.

2. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement the Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

3. Any material modifications¹ to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

4. Within thirty (30) days after the close of each calendar quarter, beginning with the calendar quarter ending June 30, 2010, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan (Variance Reports). The Variance Reports shall:

- (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken to address identified variances.

5. A copy of the Variance Reports shall be provided to the Regional Director within ten (10) days after the Board meeting.

Problem Assets.

6. Within sixty (60) days, the Association shall prepare and adopt a detailed, written plan with specific strategies, targets and timeframes to reduce² the Association's level of criticized

¹ A modification shall be considered material under this Section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

² For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

assets³ (Problem Asset Plan). At a minimum, the Problem Asset Plan shall include the preparation of individual written specific workout plans for each criticized asset and delinquent loan or group of loans to any one borrower or loan relationship of Five Hundred Thousand Dollars (\$500,000.00) or greater (Asset Workout Plans).

7. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2010, Management shall prepare a quarterly written asset status report (Asset Report). The Asset Report shall include, at a minimum:

- (a) the current status of all Asset Workout Plans;
- (b) a detailed analysis of the calculation and adequacy of the Association's ALLL levels and comparison of ALLL levels to the total level of classified assets;
- (c) a comparison of classified assets to core and risk based capital;
- (d) a comparison of classified assets at the current quarter end with the preceding quarter;
- (e) a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.);
- (f) an assessment of the Association's compliance with the Problem Asset Plan; and
- (g) a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans.

Loans to One Borrower.

8. Within sixty (60) days, the Association shall revise and update the written action plan for correcting the LTOB violation identified in the Bank's July 7, 2008 Report of Examination to (LTOB Plan). The LTOB Plan shall be implemented and adhered to and monthly status reports

³ The term "criticized assets" shall include all classified assets, assets designated special mention, all nonperforming assets and all delinquent loans.

detailing the Association's compliance with the LTOB Plan shall be submitted to the Board (Monthly LTOB Reports). The Board's review of the LTOB Plan and the Monthly LTOB Reports shall be fully detailed in the appropriate Board meeting minutes and be provided to the Regional Director within ten (10) days after the Board meeting.

Loan Underwriting and Credit Administration.

9. Within sixty (60) days, the Association shall revise its credit administration policies, procedures, practices, and controls (Credit Policies) to:
 - (a) address all recommended corrective actions in the Matters Requiring Board Attention and elsewhere in the 2009 ROE relating to the Association's Credit Policies; and
 - (b) ensure the Association adheres to prudent credit underwriting and loan administration standards in compliance with Section II G of Appendix A to the Safety and Soundness Standards of 12 C.F.R. Part 570; the real estate lending standards in 12 C.F.R. 560.101; and applicable regulatory guidance.
10. At a minimum, the Credit Policies shall include:
 - (a) restrictions on multiple loan renewals without principal reductions;
 - (b) restrictions on additional advances to borrowers with delinquent loans or loans on a watch list;
 - (c) prudent credit qualification standards, including, but not limited to, debt service to income ratios and documentation requirements for all borrowers that demonstrate and support the borrower's ability to meet all contractual debt service obligations from current, verified net income and cash flow;

- (d) policies, procedures, and systems to obtain and analyze, on an annual basis, updated borrower financial information on all loans (other than those secured by owner occupied single family dwellings and consumer loans) with an outstanding or committed balance greater than Five Hundred Thousand Dollars (\$500,000.00);
- (e) guidelines requiring that collateral properties be re-appraised consistent with applicable law, regulation, and guidelines prior to loans being modified, extended, or refinanced and that the appraisals be used to determine whether loans should be classified or designated special mention based upon the revised collateral values;
- (f) guidelines requiring that current financials from the borrower are provided prior to loans being modified, extended or refinanced in order to determine whether the borrower has the ability to repay;
- (g) prohibitions on the advancement, deferment or reduction of loan payments on any existing loan, unless supported by an updated appraisal(s) consistent with applicable law, regulation, and guidelines and updated financials from the borrower demonstrating the borrower's ability to repay;
- (h) an effective system for the retention, review, renewal, and updating by the Association of all required records, filings, and other credit related documents;
- (i) prudent underwriting standards and an internal review and approval process, including conditions requiring Loan Committee or Board approval, for loan modifications; and
- (j) prudent underwriting standards and an internal review and approval process for all loans granted as exceptions to the Association's general lending policies, including requiring such loans to be reported to the Board for review on a monthly basis.

Allowance for Loan and Lease Losses.

11. Within forty-five (45) days, the Association shall revise its policies, procedures, and methodology to ensure the timely establishment and maintenance of an adequate ALLL level in accordance with applicable laws, regulations, and regulatory guidance (ALLL Policy). At a minimum, the ALLL Policy shall:

- (a) address all recommended corrective actions set forth in the 2009 ROE relating to ALLL;
- (b) incorporate the results of all internal loan reviews and classifications;
- (c) address the historical loan loss rates of the Association for the preceding twelve (12) months covering an expanded segmentation of the Association's loan portfolio, which shall be updated quarterly with heavier weighting assigned to rates of the most recent quarters;
- (d) include an estimate of the potential loss exposure on each significant⁴ credit;
- (e) address the level and impact of concentrations of credit, including geographic concentrations;
- (f) consider current and prospective market and economic conditions; and
- (g) conform to regulatory requirements and guidance.

12. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2010, the Association shall analyze the adequacy of the ALLL consistent with the ALLL Policy (Quarterly ALLL Report). Any deficiency in the ALLL shall be remedied by the Association in the quarter in which it is discovered and before the Association files its Thrift Financial Report (TFR) with the OTS.

⁴ A credit shall be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it is/was Five Hundred Thousand Dollars (\$500,000.00) or greater at origination.

Liquidity.

13. Within sixty (60) days, the Association shall adopt and implement a revised liquidity and funds management policy for the Association (Liquidity Policy). The Liquidity Policy shall, at a minimum:

- (a) address all recommended corrective actions set forth in the 2009 ROE relating to liquidity;
- (b) conform to applicable regulatory guidance; and
- (c) require the preparation of a written plan to ensure the maintenance of adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan).

14. The Liquidity Plan shall, at a minimum:

- (a) include a cash flow analysis that contains reasonable assumptions, identifies anticipated funding needs under varying economic and market conditions and scenarios, discusses the funding sources to meet identified funding needs, identifies those funding sources that are subject to formal arrangements, considers the level and maturity of any brokered deposits, and addresses any contingent liabilities; and
- (b) identify alternative funding sources for meeting extraordinary demands or to provide liquidity in the event the sources identified in Subparagraph (a) above are insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining lines of credit from correspondent banks, recovering charged-off assets, and injecting additional equity capital.

15. A copy of the Liquidity Policy shall be provided to the Regional Director within ten (10) days after the Board's adoption.

16. Within ten (10) days after the end of each calendar month, beginning with June 2010, Management shall prepare a written monthly assessment of the Association's current liquidity position (Liquidity Report). The Liquidity Report shall include an assessment of the Association's compliance with the Liquidity Policy and the Liquidity Plan. At a minimum, the Liquidity Report shall consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit;
- (d) an analysis of the continuing availability and volatility of present funding sources;
- (e) an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans; and
- (f) an analysis of the impact of decreased cash flow from the sale of loans or loan participations.

Directorate and Management Changes.

17. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H, 12 C.F.R. §§ 563.550 through 563.590.

Employment Contracts and Compensation Arrangements.

18. Effective immediately, the Association shall not enter into any new, or renew, extend, or revise any existing, contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement

or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Severance and Indemnification Payments.

19. Effective immediately, the Association shall not make any golden parachute payment⁵ and/or indemnification payment unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Brokered Deposits.

20. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits⁶ at the Association without receiving the prior written non-objection of the Regional Director. The Association's written request for non-objection shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of acceptance of additional brokered deposits.

Board Compliance Committee.

21. Within thirty (30) days, the Board shall appoint a committee to monitor and coordinate the Association's compliance with the provisions of this Order and the completion of all corrective actions required in the 2009 ROE (Regulatory Compliance Committee). The

⁵ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁶ The term "brokered deposit" is defined at 12 C.F.R. § 337.6(a)(2).

Regulatory Compliance Committee shall have three (3) or more directors, the majority of whom shall be independent⁷ directors.

22. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2010, the Regulatory Compliance Committee shall submit a written compliance progress report to the Board (Compliance Report). The Compliance Report shall, at a minimum:

- (a) separately list each corrective action required by this Order, including the paragraph number for each corrective action in the Order, and the Matters Requiring Board Attention section of the 2009 ROE;
- (b) identify the required or anticipated completion date for each corrective action; and
- (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action.

23. The Board shall review the Compliance Report and all reports required to be prepared by this Order. Following its review, the Board shall adopt a resolution: (a) certifying that each director has reviewed the Compliance Report and all required reports and (b) documenting any corrective actions adopted by the Board. A copy of the Compliance Report and the Board resolution shall be provided to the Regional Director within ten (10) days after the Board meeting. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order.

⁷ For purposes of this Order, an individual who is "independent with respect to the Association" shall be any individual who:

- a. is not employed in any capacity by the Association, its subsidiaries, or its affiliates, other than as a director;
- b. does not own or control more than ten percent (10%) of the outstanding shares of the Association or its affiliates;
- c. is not related by blood or marriage to any officer or director of the Association or its affiliates, or to any shareholder owning more than ten percent (10%) of the outstanding shares of the Association or its affiliates, and who does not otherwise share a common financial interest with any such officer, director or shareholder; and
- d. is not indebted, directly or indirectly, to the Association or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding ten percent (10%) of the Association's total Tier 1 capital and allowance for loan and lease losses.

Effective Date.

24. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

25. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

26. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

27. The Regional Director may extend any of the deadlines set forth in the provisions of this Agreement upon written request by the Association that includes reasons in support for any extension. Any OTS extension shall be made in writing.

Submissions and Notices.

28. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

29. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Bank:
Board of Directors
First Federal Bank
2452 Sir Barton Way
Lexington, KY 40509
859.967.2821 (Fax)

No Violations Authorized.

30. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

31. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

32. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 31 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

33. The laws of the United States of America shall govern the construction and validity of this Agreement.

34. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the

remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

35. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

36. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

37. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

38. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

39. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

FIRST FEDERAL BANK
Lexington, Kentucky

OFFICE OF THRIFT SUPERVISION

By: _____/s/_____
William H. McCann
Chairman

By: _____/s/_____
James G. Price
Regional Director, Southeast Region

BOARD OF DIRECTORS

_____/s/_____
Ann L. Kilcoyne
Director

_____/s/_____
William W. James
Director

_____/s/_____
Owen H. Lewis
Director

_____/s/_____
William H. McCann, Jr.
Director

_____/s/_____
Ed Maggard
Director